Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from **RPI (Realty Publications, Inc.)**

March 2019 • Vol. 8 • Issue 3 • ***Falling purchasing power takes a toll on home prices***

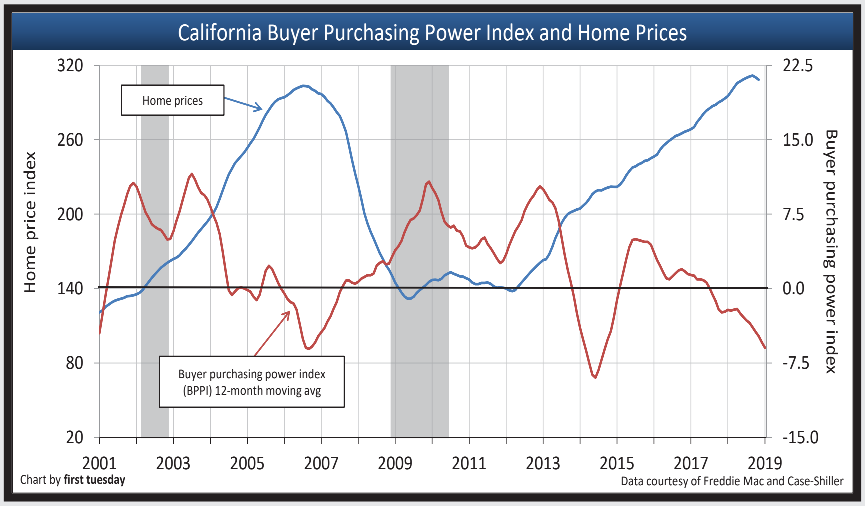
Presented by
Name
DRE #
Phone
Email

Buyer purchasing power's pull on prices

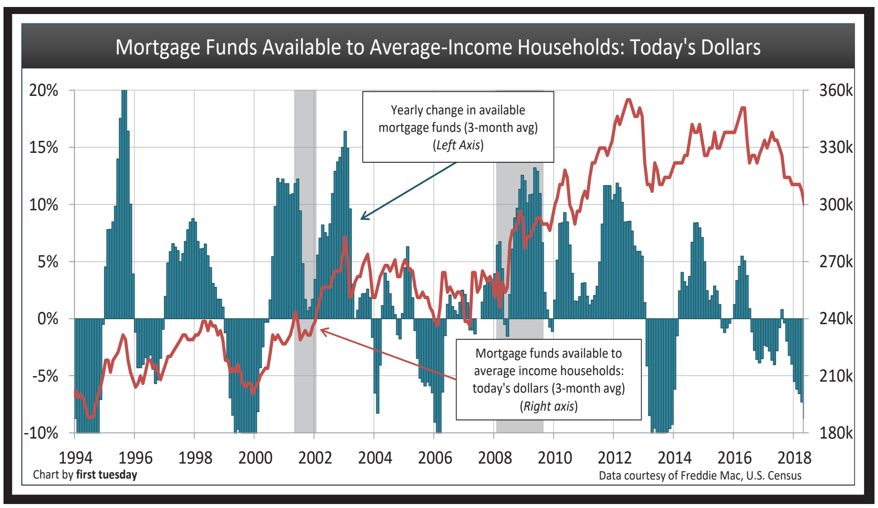
This chart shows average **home price** movement in California (the blue line) alongside California's **buyer purchasing power index** (the red line).

Purchasing power has steadily decreased since 2015, due primarily to **rising mortgage interest rates.** As homebuyers are forced to pay higher interest rates, less of their monthly payment is available to go toward mortgage principal, thus qualifying them for a less expensive home with the same mortgage payment. At the same time, home prices increased consistently from 2012-2018.

However, the relationship between **buyer purchasing power** and home prices is clear, as buyers' ability to pay which affects willingness to buy is the main driver of home prices. As buyer purchasing power was negative throughout 2018, home prices began to flag and decline at the end of 2018.



Rising mortgage rates decrease purchasing power



This chart shows the amount of mortgage money available to a household with an average income in today's dollars, known as **buyer purchasing power** (the blue bars), which fluctuates in the opposite direction of interest rates. It also shows the annual change in buyer purchasing power (the red line).

Mortgage rates began to rise significantly at the beginning of 2018 triggered by tax policy stimulus and **Federal Reserve** action to ward off future inflation, reducing the **mortgage funds available** to today's buyer. In turn, the price homebuyers are financially able to pay using purchase-assist financing steadily decreased throughout 2018.

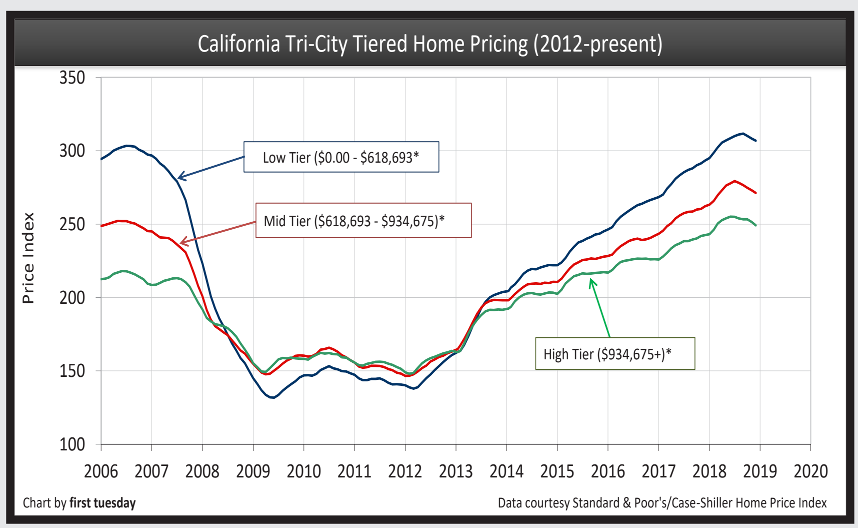
The FRM rate rise has since leveled out in 2019, but the damage reversing home sales volume and price momentum has been done. Thus, even while **homebuyers** are experiencing a brief reprieve from rising rates in 2019, sales volume and prices began a corrective decline in the third quarter of 2018.

Home prices fall from their peak

This chart shows home prices averaged across California's three largest cities: Los Angeles, San Diego and San Francisco. **Home price movement** is tracked in three price tiers: the low tier, mid tier and high tier.

Prices rose through much of 2018, but have begun to fall back due to several economic factors pushing the housing market toward its next recession, likely to set in during 2020. Chief among these factors are **rising mortgage rates**, which have reduced buyer purchasing power and caused home sales volume to slow.

The **cyclical peak** in home prices is now past. Homebuyers, discouraged first by rising rates and now by signs of a weakening market, are fast setting aside plans to buy, for now. The overall trend for the next couple of years will be downward as we cascade into the next recessionary period in 2020.



Click on any chart for more information!

Click to Print